READING BOROUGH COUNCIL

REPORT BY THE DIRECTOR OF ENVIRONMENT AND NEIGHBOURHOOD SERVICES

TO:	**POLICY COMMITTEE**		
DATE:	**26 NOVEMBER 2018**	**AGENDA ITEM:**	**9**
TITLE:	**PROPOSED RENT FOR LOCAL AUTHORITY NEW BUILD PROPERTIES**		
LEAD COUNCILLOR:	**CLLR JOHN ENNIS**	**PORTFOLIO:**	**HOUSING**
SERVICE:	**HOUSING**	**WARDS:**	**BOROUGHWIDE**
LEAD OFFICER:	**SARAH GEE**	**TEL:**	**0118 372973**
JOB TITLE:	**HEAD OF HOUSING AND NEIGHBOURHOODS**	**E-MAIL:**	**Sarah.gee@reading.gov.uk**

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1 The Ministry of Housing, Communities and Local Government (MHCLG) guidance for rents in social housing enables stock holding local authorities to set rent levels above (social) Target Rent for new build homes developed within the Housing Revenue Account (HRA).

1.2 This report details a proposal to set rents for permanent homes built as part of the Council's Local Authority New Build programme at an 'Adjusted Target Rent' as a default. This would reflect the *expected* rent levels of the existing stock, had the mandatory annual 1% rent decrease for all social housing not been imposed by Government in 2015 for 4 years. The proposed rent levels are consistent with what the rent levels would have been for all stock should they have increased with the Council's adopted rent policy and national rent policy pre 2015. The Government has announced that this national policy will be restored for 5 years from 2020/21. The proposal would increase income to the HRA by £3.7m over the life of the 30 year business plan for Phases 1 and 2 only with further potential as the programme grows, increasing financial resilience and supporting the delivery of service improvements and further new homes.

1.3 The proposed Adjusted Target Rent is still significantly lower than Local Housing Allowance levels (the maximum amount of benefit payable to cover housing rental costs) and 'Affordable Rents' often used by Registered Providers (where the rent is set at 80% of market rent) – as illustrated in the report.

1.4 This is proposed as a default but not a blanket policy for all schemes – this enables future delivery of mixed tenure schemes, including regeneration, where letting all properties at the proposed Adjusted Target Rent levels may not be viable. Also, schemes supported with grant from Homes England where the grant was awarded on the basis of the properties being let at social rent would be let on that basis.

1.5 Appendix 1 - *Equality Impact Assessment.*

2. RECOMMENDED ACTION

2.1 That Policy Committee agree the proposal to charge an 'Adjusted Target Rent' as a default rent policy for new permanent social housing developed as part of the Council's local authority new build housing programme, subject to the exceptions described in the report.

3. POLICY CONTEXT

The Housing Revenue Account

3.1 The Housing Revenue Account (HRA) deals with all the finances associated with the housing stock in the ownership of the Council. The HRA is "ring-fenced" from other activity. The main income is housing rent, and all expenditure related to council housing (such as dealing with lettings; managing; maintaining and repairing the stock; collecting rent) is charged to this account.

3.2 In April 2012 council housing finance moved to a 'self-financing' regime nationally. Councils took on full responsibility for the long-term financial management of council housing. This means that councils keep their rental income and use it to manage and maintain their housing stock. At the point of self-financing councils whose debt was lower than the assessed value of their stock borrowed to pay the difference to the government.

3.3 Self-financing requires the Council to take a much longer-term planning approach – to ensure that all of the Council's housing stock continues to meet the 'decent homes standard' and to ensure the continued viability of the Housing Revenue Account. The Council prepares and keeps up to date a financial plan for the Housing operation over a 30 year period. The financial model shows the estimates of rent and other income, the day to day management and repair costs as well as the long term major investment needed to maintain the stock and the cost of servicing the debt over 30 years.

3.4 Local housing authorities are now able to use rental income to support investment in both existing homes *and* building new council housing. This investment can either be financed directly from rental income or from borrowing that will be repaid from future rental income. The Government introduced a limitation on HRA borrowing (usually referred to as a 'debt cap') for each local authority at the point of self-financing. However, as of 29th October 2018 this cap has been removed.

Rent Policy and Legislative Change

3.5 The self-financing arrangement enabled Local Authorities to set their own rent increase each year, initially up to the maximum set by the 10 year National Rent Policy of RPI+1%, but then reduced to CPI+1% from 2015.

3.6 The DCLG also dictates that all existing housing owned by Local Authorities should continue to be let at Target (social) Rent when re-let, however, any new build properties can be let at 'Affordable Rent' levels – up to 80% of the average market rent for the area.

3.7 The 2015 autumn Spending Review announced that Government required social housing rents to be reduced by 1% p.a. for 4 years starting from 2016/17, replacing the previous national policy of an annual increase of CPI+1%.

3.6 In late 2017 it was announced that at the end of the 4 year period (April 2020) the national rent policy would return to an annual increase of CPI+1%.

3.7 For Reading Borough Council, the implementation of an annual 1% reduction in social housing rent charged for 4 years will result in an estimated 12% reduction in rental income from year 4 to year 30 of the Business Plan, which equates to circa £233m. The impact is so significant due to a 'multiplier effect' where not only will that 1% of total rent be lost every year thereafter, but it also reduces the base rent each year on which CPI+1% is then calculated.

Affordable Rent

3.8 'Affordable Rent' is a type of affordable housing 'product' introduced by the Government in 2012 that is described in the National Planning Policy Framework as:

"Housing let by local authorities or private registered providers of social housing to households who are eligible for social rented housing. Affordable Rent is subject to rent controls that require a rent of no more than 80% of the local market rent (including service charges, where applicable)."

3.9 In Reading we also insist via the Planning process that the rents for affordable housing should be set at no higher than the Local Housing Allowance (LHA) levels, so whichever is the lower of the two figures. The table below evidences that in Reading LHA is currently lower than 80% of Market Rent for all properties except for 2 bedroom homes:

Bedroom number	LHA	80% of Market Rent
1	£153.02	£156
2	£193.98	£184
3	£221.79	£295
4	£315.02	£323

3.10 The highlighted figures are the upper threshold in terms of rent levels that RBC could charge under our current policy. Any rent that is higher than Target Rent, but at or below the 80% of market rent figures in the table above is classed as 'Affordable Rent'.

3.11 In 2013 Reading Borough Council published the first draft of the statutorily required Tenancy Strategy which sets out the Council's guidance to Registered Providers in the town as to the use of 'Affordable Rent'. Registered Providers are not mandated to adhere to this strategy, only to have consideration of it when setting their relevant policies.

3.12 The current Tenancy Strategy requests that, in order to try and maintain affordability of social housing for low income households, 'Affordable Rent' is only used for 1 and 2 bed properties, and that 3 bed and larger properties are let at Target Rent. However this policy position needs to be reviewed in the light of changes in the rental market and affordability.

4. THE PROPOSAL

Current Position:

4.1 At present all existing RBC properties are re-let at social housing 'Target Rent' determined by a nationally set formula.

4.2 In winter 2018/19 the local authority expects to let the first of the 57 new build Council homes being developed at Conwy Close. As these properties will be the Council's first general needs homes to be completed as part of Phase 1 of our new build programme, it is the first time that there has been any flexibility in the rent levels that can be set for Council owned stock. Phase 2 of the Council's new homes programme will deliver a further 84 new build homes (plus a further 20 acquisitions or conversions of ancilliary space to form additional homes in existing blocks of flats).

Options Proposed

RENT LEVELS

4.3 It is proposed that as a default, new build Council homes are let at a higher rent than existing RBC properties, at the level which would have applied had Government not mandated a 1% annual reduction in rent over 4 years and the Council had continued to apply it's adopted rent policy.

4.4 The proposed rent levels are therefore described as an 'Adjusted Target Rent', set at a level that reflects where Target Rent *would be* for all existing Council homes if the rent policy had remained at a CPI+1% annual increase from 2016 to 2020. This would result in the weekly rent levels set out in the table below:

Weekly rent levels comparison:

Unit size	Target rent for 19/20 for existing Council stock	Proposed 'Adjusted Target Rent' for new Council homes from 19/20	% of market rent (for unit size)	Local Housing Allowance (benefit level payable)	Average market rent in Reading
1	£ 96.41	£110.63	57%	£153.02	£195
2	£109.24	£125.35	54%	£193.98	£230
3	£123.60	£141.83	38%	£221.79	£369
4	£141.83	£162.74	32%	£315.02	£403

4.5 The 'Adjusted Target Rent' levels proposed are an average of 14% a week higher than the Target Rent for the existing stock (this equates to between £14 and £21 per week depending on property size). However, as the table above illustrates, weekly rents are still significantly below the Local Housing Allowance cap (the amount that Housing Benefit will pay per week in the Private Rented Sector) and the average market rent and are much closer to social rent levels.

4.6 13 of the properties at Conwy Close will be let winter 2018/19, the remaining 44 the following financial year. The rent for the 13 properties is proposed to be set at the 'Adjusted Target Rent' levels set out in the table above.

4.7 The Choice Based Lettings system enables households to choose which homes to bid for based on a range of factors including location, rental levels, surrounding amenities and so forth. Those bidding for properties offered through the housing register will already encounter disparities in rents across Council homes and registered providers (housing associations). In addition, because of the overall shortage of Council and housing association properties, the housing needs of many households can only be met through the private rented sector with higher associated rents.

4.8 As these will be modern properties utilising energy saving measures such as solar panels and with high levels of thermal insulation, it is also expected that tenants will have lower running costs for the properties, although it is unlikely that any savings will balance the rental difference.

AFFORDABILITY

4.9 The recent Strategic Housing Market Assessment (SHMA) for Reading published in 2015 indicates that it is considered proportionate for any household to spend up to 41% of their income on rent, Registered Providers in the area work on an affordability ratio of 40% and alternative guidance suggests that between 35-40% should be accepted.

4.10 Tenants of social housing are often residents with incomes lower than the median. Those in the lowest income bracket will be eligible for Housing Benefit, or the housing element of Universal Credit, which will cover the full rental amount set out in the table above.

4.11 For couples and families affected by the Benefit Cap, benefit income per household is limited to £384.62 per week.

4.12 For households with the need for a 1 or 2 bed property, the proposed rent levels will not increase a household's benefit income above the level of the benefit cap.

4.13 For larger families in 3 and 4 bed houses that are reliant on benefits and not exempt from the cap, *existing* target rent levels already take them above the cap threshold. These households are often already supported to pay their rent via the Discretionary Housing Payment (DHP) mechanism for a fixed period, whilst helping the family into a more financially sustainable position. Therefore increasing the rent by c£18-£21 per week will increase the amount of DHP required to support these households. This could amount to between £936 and £1,092 per household per year for those capped – for the period that they are in receipt of DHP. However, DHP is and should not be seen as a long-term subsidy and the Housing Service works proactively with those impacted by the cap to access work or remove the cap restriction through applying for other benefits.

4.14 Current analysis suggests that 0.9% of our permanent tenants are impacted by the benefit cap. That would equate to one household if a similar percentage of tenants moving into the 110 homes delivered through Phases 1 & 2 of our new build programme were impacted. That household could require between £936 and £1,092 per annum of DHP balanced against £89,000 additional revenue per annum to the HRA from letting all 110 properties at the proposed 'Adjusted Target Rent' (both calculations represent a full year effect once all units are let).

Other Options Considered

<u>New build units are let at Target Rent</u>.

4.15 This option would maximise the affordability of the units for tenants and remove the limited risk of additional pressure on the DHP fund, but would mean that there would be no additional income to the HRA as outlined in section 10.2 of this report.

<u>New build units are let at maximum 'Affordable Rent' levels (80% of market rent or LHA levels whichever is lower) as set out in the table at 3.9.</u>

4.16 This increase would not be in line with the current RBC policy and advice to Registered Providers working in the Borough. This policy is due for review in the

context of the current rental market and as the Council is developing a new housing strategy.

4.17 Increasing rents beyond the proposed levels to Affordable Rents (80% of market rent or LHA whichever is lower) would increase income to the HRA and could be covered by housing benefit or the housing element of Universal Credit. However, at the most basic level, increasing rent levels results in more tenants being reliant on full or partial Housing Benefit and reduces their likelihood of being able to come off benefits altogether. It would also increase the number of people impacted by the Benefit Cap and, therefore, the amount of DHP that is required to support those that are unable to pay their rent. The extent of impact on DHP would depend on the rent levels set.

5. CONTRIBUTION TO STRATEGIC AIMS

5.1 This proposal helps deliver the following Corporate Plan priorities:

- Providing homes for those in most need;
- Remaining financially sustainable to deliver these service priorities.

5.2 The energy efficiency measures that form part of the design for all LANB properties help meet the Council's sustainability agenda.

6. COMMUNITY ENGAGEMENT AND INFORMATION

6.1 There is no statutory obligation to consult regarding the proposal.

7. EQUALITY IMPACT ASSESSMENT

7.1 Under the Equality Act 2010, Section 149, a public authority must, in the exercise of its functions, have due regard to the need to—

- *eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;*
- *advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;*
- *foster good relations between persons who share a relevant protected characteristic and persons who do not share it.*

7.2 See attached EIA

8. LEGAL IMPLICATIONS

8.1 The 2014 "Guidance on Rents for Social Housing", published by the MHCLG states that stock holding local authorities can let new build properties on Affordable Rents when "they have an agreement in place with the Secretary of State, to retain additional Right to Buy receipts for investment in new affordable rented homes".

8.2 Reading Borough Council entered in to this agreement in 2012 and is utilising the Right to Buy receipts to deliver the Local Authority New Build programme.

9. FINANCIAL IMPLICATIONS

IMPACT ON THE HRA BUSINESS PLAN

9.1 Implementing this proposal at the Conwy Close development (57 properties) and the Phase 2 HRA new build programme of permanent accommodation (currently estimated to be 53 properties) would mean a total £3.7m additional income over the life of the

30 year business plan. This in turn would provide greater resilience in the business plan and could enable additional spend on our existing stock or increased borrowing capacity for future developments.

9.2 The full year impact on the Business Plan for year 1 of the development (this figure for the wider LANB programme is to provide a tangible measure for the proposal, however, the completion of 57 properties will be staggered over the next 3 years) and on the 30 year period is set out in the table below:

	Conwy Close (57 homes)	All Phase 1 and 2 general needs - est 110 permanent homes
Full year impact (year 1)	£46,383	£89,088
30 year impact	£1,952,107	£3,735,576

9.3 There are no costs associated with the proposal although risk of a marginal impact on the Discretionary Housing Payment budget.

9.4 The application of an 'Adjusted Target Rent' is proposed as a default for permanent housing. However, it should be noted that that Phase 2 of the LANB programme will be subsidised through Right to Buy '1 for 1' receipts. For future phases, if grant is secured from Homes England to support the development of 'social rent' (i.e.: Target Rent) homes then the national formula would apply.

9.5 Further, sites may come forward within the HRA in the future which may not be viable at 100% target or adjusted target rent. This will depend on subsidy levels available as explained above and the nature of the scheme. For example, a regeneration entailing demolition or considerable additional infrastructure improvements would need to be cross tenure – this might be achieved through development of a mixed tenure scheme which could include keyworker housing at affordable rents or shared ownership/equity schemes (as well as private rent and outright sale units) to cross subsidise the development of social rented homes.

10. BACKGROUND PAPERS

10.1 Guidance on Rents for Social Housing – DCLG (May 2014)

Reading BOROUGH COUNCIL **Equality Impact Assessment**

Provide basic details

Name of proposal/activity/policy to be assessed:

Introducing Adjusted Target Rent for New Build Properties.

Directorate: DENS

Service: Housing & Neighbourhood Services

Name and job title of person doing the assessment

Name: Nigel Bailey

Job Title: Interim Strategic Housing Finance and Development Manager

Date of assessment: 31/10/18

Scope your proposal

What is the aim of your policy or new service/what changes are you proposing?

MCHLG guidance for rents in social housing enables stock holding local authorities to set rent levels above Target Rent for new build units developed within the Housing Revenue Account (HRA).

This report details a proposal to set rents for permanent homes built as part of the Council' Local Authority New Build programme at an 'Adjusted Target Rent' as a default. This would reflect the *expected* rent levels of the existing stock, had the mandatory annual 1% rent decrease for all social housing not been imposed by Government in 2015 for 4 years.

The proposed rent levels are consistent with what the rent levels would have been for all stock if they had continued to increase annually in line with the Council's adopted rent policy and national rent policy pre 2015. A policy that the Government has announced thatwill be restored for 5 years from 2020/21.

If implemented the proposal would increase income to the HRA by £3.7m over the life of the 30 year business plan, increasing financial resilience and supporting the delivery of service improvements and further new homes.

The proposed Adjusted Target Rent is still significantly lower than Local Housing Allowance levels (the amount of benefit payable to cover rental costs) and 'Affordable Rents' often used by Registered Providers (where the rent is set at 80% of market rent).The proposed rent levels are:

Number Bedrooms	Target rent for 19/20 for existing stock	Proposed 'Adjusted Target Rent' for new units in 19/20	% of market rent	Local Housing Allowance	Average market rent
1	£96.41	£110.63	57%	£153.02	£195
2	£109.24	£125.35	54%	£188.33	£230
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4	£141,83	£162.74	32%	£315.02	£402

The rent levels proposed are an average of 14% a week higher than the Target Rent for the existing stock (between £14 and £21 per week depending on property size). However, as the table above shows that weekly rents are still significantly below the Local Housing Allowance cap (amount Housing Benefit will pay per week in the Private Rented Sector) and the average market rent and are much closer to social rent levels.

For couples and families affected by the Benefit Cap, benefit income per household is limited to £384.62 per week. For households with the need for a 1 or 2 bed property, the proposed rent levels will not increase a household's benefit income above the level of the benefit cap.

For larger families in 3 and 4 bed houses that are reliant on benefits and not exempt from the cap, *existing* target rent levels already take them above the cap threshold. These households are often already supported to pay their rent via the Discretionary Housing Payment (DHP) mechanism for a fixed period, whilst helping the family into a more financially sustainable position. Therefore increasing the rent by c£18-£21 per week will increase the amount of DHP required to support these households. This could amount to between £936 and £1,092 per household per year for those capped – for the period that they are in receipt of DHP. However, DHP is and should not be seen as a long term subsidy and the Housing Service works proactively with those impact6ed by the cap to access work or remove cap restrictions through applying for other benefits.

Current analysis suggests that 0.9% of our permanent tenants are impacted by the benefit cap. The would equate to one household if a similar percentage of tenants moving into the 110 homes delivered through Phases 1 &2 of our new build programme were impacted. That household could require between £936 and £1,092 of DHP balanced against £89,000 additional rebvenue per annum to the HRA from letting all 110 properties at the proposed 'Adjusted Target Rent'(both calculations represent a full year effect once all units are let).

Who will benefit from this proposal and how?

The benefit from this proposal is an increase of income of c.£3.7m to RBC's Housing Revenue Account over the course of the 30 year business plan

What outcomes does the change aim to achieve and for whom?

Increased income to Reading Borough Council to increase financial resilience and support the delivery of service improvements and further new affordable homes.

Who are the main stakeholders and what do they want?

Assess whether an EqIA is Relevant

How does your proposal relate to eliminating discrimination; promoting equality of opportunity; promoting good community relations?

Do you have evidence or reason to believe that some (racial, disability, gender, sexuality, age and religious belief) groups may be affected differently than others? (Think about your monitoring information, research, national data/reports etc.)

Yes - the proposed rent increase will impact people who are allocated affordable housing through the RBC Housing Register. Although the policy will be implemented universally across all of the six protected groups a disproportionate number of households on the Housing Register are from the BME community (51% vs 35% of the households in the borough based in the latest census data), and are female (64% of applicants on the register are female), or have a disability (35% of applicants have someone in the household with disability or mobility need).

Is there already public concern about potentially discriminatory practices/impact or could there be? Think about your complaints, consultation, and feedback.

No *(delete as appropriate)*

If the answer is **Yes** to any of the above you need to do an Equality Impact Assessment.

If No you **MUST** complete this statement

An Equality Impact Assessment is not relevant because:

Signed (completing officer)

Date

Signed (Lead Officer) Date

Consultation

As the increased rent will apply to new tenants, and not the existing tenants, no consultation is proposed.

Describe how this proposal could impact on Racial groups

Is there a negative impact? Yes - indirectly

The rent increase would be implemented across all households allocated social housing with the limited number of LANB properties though the Housing Register, however, in January 2018 51% of applicants define themselves as being from a BME

community. This compares to 35% of Reading residents as recorded in the 2011 census (note this may have changed since). Therefore this change in policy would have a disproportionate impact on this protected group.

Describe how this proposal could impact on Gender/transgender (cover pregnancy and maternity, marriage)

Is there a negative impact? Yes - indirectly

The rent increase would be implemented across all households allocated the LANB units, however 62% of the applicants on the Housing Register are women. Therefore this change in policy would have a disproportionate impact on women.

Describe how this proposal could impact on Disability

Nationally it is recorded that a substantially higher proportion of individuals who live in families with disabled members live in poverty, compared to individuals who live in families where no one is disabled. 19% of individuals in families with at least one disabled member live in relative income poverty, on a before housing costs basis, compared to 15% of individuals in families with no disabled member. 21% of children in families with at least one disabled member are in poverty, a significantly higher proportion than the 16% of children with no disabled member. As this proposal has a negative impact on those on a lower income and seeking social housing, the protected group may be disproportionally impacted. 35% of applicants on the Housing Register list themselves or one of the household as having a disability.

Is there a negative impact? Yes

Describe how this proposal could impact on Sexual orientation (cover civil partnership)

Is there a negative impact? No

Describe how this proposal could impact on Age

Is there a negative impact? No

Describe how this proposal could impact on Religious belief?

Is there a negative impact? No

Make a Decision

If the impact is negative then you must consider whether you can legally justify it. If not you must set out how you will reduce or eliminate the impact. If you are not sure what the impact will be you MUST assume that there could be a negative impact. You may have to do further consultation or test out your proposal and monitor the impact before full implementation.

Tick which applies (Please delete relevant ticks)

1. No negative impact identified Go to sign off

2. Negative impact identified but there is a justifiable reason
You must give due regard or weight but this does not necessarily mean that the equality duty overrides other clearly conflicting statutory duties that you must comply with.

Reason

The negative impact flagged is indirect and is the result of a disproportionate representation of some parts of our community applicants on the housing register. It is classed as a negative impact as it will result in an increased rent for the residents. However, it is believed that for the majority of residents the increase will be absorbed as part of their Housing Benefit entitlement, and mitigations will be put in place for those affected by the Benefit Cap. Equally for those who pay rent will have recourse to Housing Benefit should the rent levels become unaffordable.

It is felt that the negative impact will be mitigated and is therefore justifiable.

How will you monitor for adverse impact in the future?

N/A

Signed (completing officer)	Nigel Bailey	Date	31/10/18
Signed (Lead Officer)	Sarah Gee	Date	2/11/18